

1280.01 Auditor General Audit Process

Issued January 1, 1994

SUBJECT: Auditor General Audit Process.

APPLICATION: All branches, departments, offices, boards, commissions, agencies, authorities and institutions of the State.

PURPOSE: To provide a general overview of the audit process for financial and performance audits completed by the Office of the Auditor General (OAG) or by public accounting firms under contract with the OAG.

CONTACT AGENCY: Office of the Auditor General (OAG) - Audit Operations.

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SUMMARY: The OAG conducts financial, financial related and performance audits as part of its constitutional responsibility. Financial and financial related audits are conducted at various intervals to permit the Auditor General to express an opinion on the State's financial statements. Performance audits are conducted on a priority basis related to the potential for improving effectiveness and efficiency. Many audits are mandated by statute to be performed according to a designated schedule.

The OAG conducts financial audits of the State of Michigan Comprehensive Annual Financial Report (SOMCAFR) annually, Single Audits of applicable State departments on an alternating biennial cycle, and financial audits of other State departments, agencies and authorities.

Because of limited OAG professional staff resources available to meet audit requirements, the OAG periodically contracts with public accounting firms to perform financial audits of certain State agencies.

OAG performance audits may focus on any area of State government operations. Performance audits are conducted to provide a reasonable level of assurance to the Legislature and the citizens of Michigan concerning the effectiveness and efficiency of State government operations. (Effectiveness is the extent to which a program is meeting the goals and responsibilities for which it was established. Efficiency is the measure of the amount of resources applied to achieve a given result.)

Section 18.1487 of the Michigan Compiled Laws requires agencies to report suspected criminal activity to the OAG.

The OAG also performs special research projects, normally at the request of the Legislature but also occasionally at the request of State managers.

NOTE: OAG audit reports are public documents. They are distributed routinely to the auditee, legislators, and news media. Executive Digests which summarize the major issues from the audits are printed in the Michigan Register. The OAG Annual Report recaps audit activities and lists audit reports completed during the fiscal year.

To receive an OAG Executive Digest or audit report, write to the Office of the Auditor General, 201 N. Washington Square, Lansing, Michigan 48913, or telephone (517) 334-8050.

APPLICABLE FORMS: None.

PROCEDURES:

All Audits

OAG:

- Develops an annual audit plan which identifies the audits to be completed, and whether the audits are intended to be performed by OAG professional staff or by public accounting firms.
- Revises the annual audit plan as circumstances require.
- Gives each auditee agency notification that an audit is planned of its respective organization, program or activity.
- Establishes tentative audit purpose, objectives and scope.

OAG/Agency:

- Attend introductory meeting to discuss the tentative audit purpose, objectives and scope, expected timing of the field work, OAG staffing, working arrangements, expected assistance from auditee staff, and other pertinent issues.

Audits Completed by the OAG

OAG:

- Conducts preliminary survey to gain an adequate understanding of the auditee agency's programs, control environment, flow of transactions and adequacy of records.
- Finalizes audit objectives for the engagement and, when appropriate, provides the auditee agency with an engagement letter for its review and signature.
- Prepares audit programs to guide the auditor in achieving the objectives of the audit and in ensuring compliance with required professional standards.
- Conducts follow-up of prior audit report findings and recommendations, when applicable, to determine extent of compliance by the auditee.
- Conducts audit field work, using audit programs as a guide, and documents testing and procedures performed.

Agency:

- Provides the OAG with work space, telephone access, appropriate clerical support and access to all financial and program records.
- Notifies the OAG in advance of agency-scheduled inventory counts.
- Prepares and provides the OAG with requested analyses, confirmation letters, and other data; applicable financial statements/schedules and notes; management representation letter; and attorney inquiry letter.

OAG/Agency:

- Attends field exit meetings to discuss the tentative audit findings, recommendations and conclusions and, for financial audits, the financial statements/schedules, notes and auditor's reports.

OAG:

- Prepares preliminary analysis of the audit findings and recommendations.
- Conducts quality control reviews of the preliminary analysis and working papers, to ensure adherence to professional standards, OAG policy and procedures and legal requirements.
- Sends copies of the preliminary analysis to the auditee agency for its review.

Agency:

- Receives and reviews the preliminary analysis of the audit report. It has approximately three weeks to submit to the OAG written responses to the preliminary analysis, including suggested changes or concerns about the information, conclusions drawn, recommendations, supporting data and presentation.

OAG/Agency:

- Attend audit conference to discuss the findings, recommendations and agency responses, and to verbalize proposed changes.

OAG:

- Prepares final copy of the report based on the auditee agency's written response and audit conference discussions. The auditee agency's responses to the findings and recommendations will be included in the report as preliminary responses, with an explanation that official agency responses will be developed and distributed at a later date in accordance with Section 18.1462 of the Michigan Compiled Laws.
 - Completes quality control reviews of the final copy of the audit report.
- Holds legislative briefings, when appropriate, and mails the audit report to the auditee agency. A few days later, the audit report is released to the public.
- Bills departments/agencies for Single Audits, audits of restricted funds, and certain other audits.

Audits Completed Under Contract with the OAG

OAG:

- Completes the necessary procedures to obtain competitive proposals for selecting a public accounting firm for the audit, in consultation with the auditee agency.
- Notifies the contract firm selected, and prepares and forwards the engagement contract to the firm for signature.
- Distributes copies of the executed contract to the auditee agency and the contract firm.

Agency:

- Notifies the contract firm in advance of agency-scheduled inventory counts.
- Prepares and provides the contract firm with requested analyses, confirmation letters, and other data; applicable financial statements/schedules and notes; management representation letter; and attorney inquiry letter.

Firm:

- Conducts audit in compliance with the contractual agreement with the OAG.
- Prepares preliminary audit report (agency prepared financial statements, notes to financial statements and auditor's reports) and management letter, and distributes copies to the auditee agency and the OAG.
- Prepares a crosswalk from the audited financial statements, for inclusion in the SOMCAFR, in accordance with the contractual agreement.

OAG:

- Monitors audit progress, and compliance with report due date requirements.

OAG/Agency/Firm/Department of Management and Budget (DMB) - Office of Financial Management:

- Attend field exit meeting to discuss, if applicable, the audit report, management letter and crosswalks.

OAG/Agency/DMB - Office of Financial Management:

- Receive and review the draft audit report, crosswalk and management letter for accuracy, and notify the contract firm of any errors or omissions.

Firm:

- Prepares the final audit report, crosswalk and management letter for distribution to the auditee agency, DMB - Office of Financial Management and the OAG.
- Submits billings for audit services to the OAG for review and approval.

OAG:

- Reviews and approves billings received from the contract firm and forwards them to the auditee agency for payment.
- Bills auditee agency a fee for contract administration services.
- Reviews selected audit working papers for compliance with professional standards and contract requirements.

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